23rd July 2013

Mr. Brent Hogan
Chief Executive
Greyhound Racing NSW
PO Box 170
Concord West NSW 2138

Dear Brent (and the GRNSW board of directors),

Re: Show cause notice - Intention to cancel or refuse registration of NCA as a greyhound racing club

We refer to your letter dated 4th July 2013 informing the NCA that GRNSW proposes to cancel the NCA's existing registration under section 20 (1) of the Greyhound Racing Act 2009 (NSW) (the Act), or to refuse to register the NCA after expiry of the existing registration under section 17(1) of the Act, as it is currently of the opinion that:

(a) The NCA is not, or will not be financially viable in relation to participation in the greyhound racing industry; and in any event

(b) It would be in the best interests of the greyhound racing industry to do so

We are further informed that GRNSW has formed this view after consideration of the reports prepared by Deloitte, and other relevant correspondence received from "certain NCA officers and members", although these were not specified.

At this point the NCA would like to express its appreciation for being afforded the opportunity to review the majority of the Deloitte reports and submit a response raising some inconstancies to the view held by NCA.

In terms of the show-cause notice, we have responded to each of the key elements raised individually, in the same order that they have been given as the reasons for GRNSW's proposed position.

I also advise NCA decided to respond to the show-cause notice within the confines of its internal resources, given the amount of money it's already expended on one-off consultancy services over the past 16 months.

Fronting the show-cause response is a summary page, providing an overview of the NCA's position following revision of the Deloitte reports and show-cause letter.

If you require any further information, please don’t hesitate to contact on 0412 680 664.

Yours sincerely,

Kevin Gordon
Acting President

<u>Overview – Summary page</u>

The NCA provides the following summary after receipt of the show-cause notice on July 4, 2013.

After receipt of the Deloitte report(s), the NCA board understands and recognizes the key issue surrounding the treatment of "legacy creditors", as outlined on a number of occasions in the show-cause correspondence. Acknowledging the origin of these legacy creditors as one-offs that will not reoccur, the NCA believe it is appropriate to condition them in the immediate to short term through the use of a non-interest bearing members' loan, as suggested and outlined in the Deloitte Report.

Away from this issue, which will be dealt with in a satisfactory manner with no impact on the Association's current and future trading position, the NCA is heartened by the future outlook detailed by Deloitte in their reports. Confirmation that the NCA Group is a viable and profitable business strikes to the very core of why the facility was pursued and then constructed, with GRNSW, back in 2001. Now debt-free as part of the co-ownership agreement entered into with GRNSW in February 2012, the NCA remains totally committed to growing The Gardens brand, as it has done, with strong results, since its opening in September 2005. We are excited about the opportunity to enact on the proposed improvement measures documented by Deloitte, set to be driven through the employment of a new General Manager as outlined in the Deloitte report also. We do however question the need to provide for this cost on top of the current salary budget. The NCA board has recently had a revamp which has seen the inclusion of two local directors, both with greyhound racing and broader business backgrounds.

In closing of this summary I would like to refer to the Monto Carlo simulation detailed on *page 7* of the second Deloitte report which states:

"With an injection of $150k of members loan contributions, there is a 91% chance that the FY14 final cash position will be between $0 and $280K having repaid all legacy creditors."

Along with the rest of the information detailed in this show-cause response, the NCA commits its alliance with GRNSW, believing this simulation provides GRNSW with the necessary comfort to register NSW National Coursing Association for the 2013/14 financial year.

<u>Summary Of Key Elements Giving Rise To GRNSW's current opinions</u>

(a) The NCA, in its present form, would be unable to continue to trade due to marginal earnings and legacy creditors, with Deloitte finding that *"without additional support NCA is presently unable to pay its debts as and then they fall due".*

Response: Deloitte comments on *Page 6* of their Second Report *(Business & Performance Improvement Plan)* are made on the basis of no additional support being made available to NCA. The NCA has already provided written and verbal confirmation that a Member's Loan Facility aggregating $150,000 is available from July 1, 2013. To confirm its authenticity, we propose this injection becomes a condition of registration. In Scenario 2, *Page 19*, Deloitte has factored in this support and commented that it "depicts a more positive financial position." In fact, in both Scenarios 2 & 3 (even before the removal of the additional GM expense), we have a very positive EBITDA and very positive cash balance throughout the period of the projections. Refer Attachment "A".

(b) Suggested improvement opportunities may not be viable *"due to the level of legacy creditors and the restructuring required."*

Response: The comments referred to from *Page 6* of the Second Report are taken somewhat out of context. The full context of this comment indicates that the value of opportunities identified by NCA management and Deloitte is not insignificant at $106.6k which if the opportunities are exercised through implementation of structural reforms, will produce an even more positive EBITDA outcome, $125.1k in FY14. The legacy creditors will be conditioned as mentioned above. In actual fact, Deloitte comments on this page revolve around the need to appoint an appropriate General Manager (GM) to drive these initiatives, something NCA has agreed, and attempted to pursue, through the Administration process. We note the extent of the proposed improvement opportunities - dollar-wise - are comparative to the proposed "additional" GM expense, which NCA has advised is not a true reflection of the required staff structure going forward.

(c) Deloitte have *"significant doubts about NCA Group's ability to deliver on* [the business plan within the second report] *with their current management team"*, finding that the NCA's "*legacy creditors and limited management capability put the success of any reconstruction plan at risk"*.

Response: Again the issue of legacy creditors has already been covered, and dealt with, previously. I go on to say that the NCA board is extremely comfortable it can deliver on the business plan improvement opportunities given their nature. This will obviously be supported by the employment of a General Manager as Deloitte indicated in this part of their report. We again state the Deloitte comment referred to revolve around the need for employment of a General Manager.

(d) ***"Even if NCA successfully implemented the performance improvement initiatives identified it will still require c. $55.1K of external funding to fully repay legacy creditors by June 14 2014".***

Response: The Members Loan Facility will more than cover any shortfall. Refer Attachment "B".

(e) ***"Absent a bridging loan from GRNSW, a bank loan, loans/contributions from members or other external financing, NCA will need to negotiate long term repayment plans will all creditors..however some creditors may have to be paid immediately".***

Response: Repayment arrangements are already in place for the identified "legacy creditors" and all arrangements have been met to date. NCA has no monetary defaults on record. In these circumstances there will be no difficulty in retaining these arrangements going forward if required.

(f) The financial position of NCA under any of the scenarios does not allow the accommodation of any "abnormal adverse event" which could disrupt its operations or cause significant abnormal expenditure to be required."

Response: In the absence of quantifying the likely financial impact of any "abnormal adverse event" we question the basis for this conclusion. We advise that the NCA has in fact previously experienced an "abnormal adverse event", which was the significant flooding of The Gardens during the massive floods that prevailed in Newcastle in June 2007. The NCA Board and management responded in such a swift and positive manner that the interruption to racing was restricted to less than 2 weeks. Despite such interruption and loss of revenue, all obligations were satisfactorily maintained. We also note the NCA has comprehensive "loss of income" insurance cover, protecting the NCA from any unforeseen events.

(g) Letters to GRNSW from NCA members Mike Hilder, Kevin Gordon and Peter Healion, dated 15 December 2012, undertaking to ***"provide financial assistance to NSW National Coursing Association Ltd upon written request, contain "no legally enforceable agreement that binds the members"***

Response: The NCA is well aware of the legal status of such documents. Refer our correspondence with David Lombe. Attachment "B". We are unaware of what gives rise to the issue of enforceability. The members concerned have confirmed their intention to honour the commitment given to the NCA. As stated above, NCA is comfortable for this injection to be a part of the re-registration process.

<u>Operating Standards</u>

With regard to the GRNSW Operating Standards, which contain a range of financial ratios designed to measure a club's financial viability, we submit the following. While ratio analysis is widely accepted as a powerful tool of financial management and ratios are simple to calculate and easy to understand, they suffer from limitations. Many ratios are calculated on the basis of the balance sheet figures. These figures are as on the balance sheet date only and may not be indicative of the year-round position. The major limitation here is the assumption that the future will be like the past/or that past trends will continue into the future. Ratios are tools of quantitative analysis, which ignore qualitative points of view.

This is perfectly illustrated in the NCA's case. GRNSW used the current ratio analysis of the NCA, taken from its 30/6/2012 Annual Report, as the key element leading to issue of the original show cause notice. Relying on this analysis alone, the factors that may be influencing it were ignored. During the latter part of the 2011/2012 financial year, the NCA incurred a number of significant one-off costs relating to the co-ownership transaction with GRNSW. Further, it had only operated debt free for some three months, too early to see any tangible trading performance improvements flowing from it.

However, in the ensuing year, 2012/ 2013, a far more positive result has been produced to date (Refer Attachment "C") and forecasts for the next financial year to June 2014 indicate a continuing positive result. We submit that a qualitative analysis would have revealed these factors and indicated that the future prospects were looking much better as has been identified by Deloitte.

<u>Identified Performance Improvement Measures</u>

We note GRNSW's opinion regarding the potential performance improvement measures identified at pages 11 and 12 of Deloitte's Second Report and respond as follows;

(a) (i) Unibet Gardens has the highest average paying customers per meeting per annum, outside of Wentworth Park, in NSW. Source - GRNSW Annual Report.

(ii) In February 2013, NCA passed 80 additional members onto its registrar, with that process alone set to deliver an additional $4k annually in members' fees for FY14.

(b) The NCA has a contract in place for the use of the playing field inside the track with Wallsend Football club, which has been in place since 2008. The two large billboards on-site have been utilized on an ongoing basis with Sports & Outdoor Advertising with acceptable returns.

(c) C3 Church has just recently increased their commitment to NCA for rental space at The Gardens. Extending their lease for a further three years with another option.

(d) The NCA has attracted sponsorships to The Gardens venue well above any other club in provincial NSW. By way of comparison, in 2010/11, the dollar value of sponsorship at The Gardens exceeded all of the GBOTA venues combined (8 venues), excluding Wentworth Park. NCA has a proven track record of growing sponsorship year-on-year. Whilst we appreciate the volatility of this market, we would imagine Deloitte have raised this opportunity given the strong work NCA has done in this field in the past.

(e) We are unaware of any incidents that have brought into question the issue of race night security. As raised by Deloitte – I imagine there is some confusion in this comment. The NCA acknowledges its public responsibility and has, and always will, act accordingly.

In terms of the other opportunities raised by Deloitte, the NCA, given its track record, is supremely confident it can deliver on the objectives outlined with the employment of a General Manager as outlined by Deloitte.

<u>GRNSW currently holds the following opinions, which in whole or in part indicate registration of the NCA would not be in the best interests of the greyhound racing industry.</u>

The opinions expressed by GRNSW, page 3 of your letter (a) to (l) inclusive, which you advise that in whole or part indicate registration of the NCA would not be in the best interests of the greyhound racing industry, are quite simply **NOT** supported by the findings in the Deloitte reports. Where is the evidence to demonstrate that "the NCA is not financially viable" and even more extreme, where is the evidence to support GRNSW's opinion that "the NCA will not be financially viable in the future". In fact the Deloitte reports find to the contrary.

Nevertheless we respond to each of your comments, placing particular emphasis on 'l' - found on the last page of your letter.

(a) The NCA is not financially viable;

The reports tabled by Deloitte confirm the NCA Group is financially viable, with a positive EBITDA projected in FY14. We also acknowledge the appropriate Scenarios (2 & 3) of their business and improvement plan report, confirming this position.

(b) The NCA will not be financially viable into the future;

We understand the scope of the Deloitte report was to only deal with the NCA's financial landscape to June 2014 which has depicted a positive outlook.

(c) Even if incorrect regarding (a) and (b), there is an unacceptable degree of uncertainty, conditionality and risk regarding present and/or future viability of the NCA;

Given Deloitte has confirmed NCA Group is viable, NCA believe, given its significant investment to The Gardens, it should be given the opportunity to run The Gardens to its absolute optimum now debt free. To this point also, regarding risk profile, we refer to *page 7* of the second report where the Monte Carlo simulation states:

"With an injection of $150k of members loan contributions, there is a 91% chance that the FY14 final cash position will be between $0 and $280K having repaid all legacy creditors."

(d) The NCA either does not meet or in reality is highly unlikely to meet ratio requirements set out in the operating standards, which greyhound racing clubs must meet to ensure "the continued viability and sustainability of the sport in NSW."

In terms of this comment, NCA reiterate that the NCA's working ratios have improved significantly over the past few years where expectancy of a dollar-for-dollar ratio is a reality within the next 12 months. Given the continued improvement in this area, NCA believe there is enough substance to provide GRNSW with the necessary comfort on this issue. NCA also acknowledge GRNSW's comfort of these ratios at the conclusion of FY2011 – with that position improvement significantly to now.

(e) There is significant risk that a number of the potential performance improvement measures identified in the second report, as set out, will not be achieved as effective as predicted.

NCA note that the proposed performance improvement plans deliver potential annual benefits less than the erroneous GM salary that is included in the scenarios presented in the second report. Nevertheless, given the proposed improvements, and the NCA's proven track record in these areas, it's impossible to conclude it isn't feasible for these improvements to be realized in some capacity. We again state our earlier position whereby the rectification of the GM salary outstrips any potential income improvements in any case.

(f) The NSW greyhound racing industry, via GRNSW, has only recently expended (February, 2012) a very significant amount of money in financially supporting the NCA, which support has not avoided the NCA's current financial situation (albeit in acquiring 70% share in The Gardens property);

As the GRNSW board is aware, NCA and GRNSW went into a co-ownership agreement to conduct greyhound racing at The Gardens for the next 99 years in February 2012. This arrangement was put in place given both organization's had contributed heavily in its construction. The NCA's current financial position and future prospects is considerably brighter then prior to the two parties entering into the co-ownership agreement in February 2012. We also note the non-recurring expense of facilitating the co-ownership transaction with GRNSW, which has largely led to the current level of "legacy creditors".

(g) Even in the best case scenario identified in the second report, the viability of the NCA is reliant upon uncertain and unenforceable letters of comfort from members, with Deloitte finding that "there is no legally enforceable agreement that binds the members" with regard to their proposed finance;

As previously stated, NCA is comfortable for this injection to be a condition of registration.

(h) In any event, the members loan "solution" proposed is, in many ways, simply replacing one debt with another, albeit presumably in relation to different financial/accounting periods;

The non-interest bearing members loans is there to provide comfort to the current legacy creditors identified. If FY14 is a view to the future, the members' loans will have no residual impact on the Association's future trading prospects.

(i) In its current structure and with its current management team, the NCA is unlikely to be able to

successfully implement the reconstruction plan and associated initiatives identified in the Second Report;

Given the improvements identified, there is no evidence to suggest the NCA board can't deliver on the objectives outlined. Actually, in many instances, this process is already underway. The Deloitte comment which leads to this comment relates around the need for the employment of a General Manager – again - something NCA has been aggressively pursuing through the administration process.

(j) It is not certain the NCA will be able to reach agreement with legacy creditors, which is a critical threshold requirement in all scenarios identified in the Second Report:

This is the prime motivation for the Deloitte request of a cash injection of members to $150k. Nevertheless, NCA had satisfactory payment plans in place with the necessary creditors prior to Deloitte appointment. It will do so where/if required in the future.

(k) The NCA has a track record of poor financial hygiene, for example it provides its Board with "minimal financial and non-financial information for its review and consideration….which significantly reduces their ability to make sound decisions and provide effective direction…due to poorly maintained financial records, "with accrual accounting not performed correctly on a monthy basis and detailed breakdowns of account balances not readily available."

We are totally unaware of what hard evidence was obtained to support these comments regarding the NCA's production of financial information to the Board. If indeed this were the case, it would be extremely unlikely that NCA could have managed the significant debt load it carried in the earlier years of The Gardens project without a monetary breach of its loan obligations to the Bank or have petitions lodged by creditors. Furthermore, NCA would be more than happy to provide GRNSW with evidence that the NCA board, Treasurer in particular, is in receipt of constant accounting records, for its consideration. We note the Deloitte recommendation for new GM to provide further adequate reporting to the board.

(l) The NCA is not necessary for the successful implementation at The Gardens of the initiatives suggested in the second report which could be achieved without much of the uncertainty, conditionality and risk of attempting to implement them via the NCA.

The Gardens is the NCA, and the NCA is The Gardens. NCA, Australia's oldest greyhound racing club purchased The Gardens back in 2001 and since then, has invested over $6 million into the project, be it through capital or interest payments. During some difficult times, the NCA has worked tirelessly since 2005 to ensure The Gardens is a sustainable and profitable business. Now Debt free, this is something the Deloitte reports confirm.

Since 2005 the NCA has driven some major initiatives, ensuring the NCA and The Gardens has become a major part of the Australian greyhound racing landscape.

Some of these key points include but are not limited to:

- Growing a sponsorship base that is the envy of race clubs across Australia
- Forming an innovative race program that caters for owner and trainers both inside and outside the Hunter Valley
- Formulating a trial structure that provides the necessary for opportunities for greyhound racing participants
- Cultivated a relationship with the Newcastle Herald which sees the NCA in receipt of two annual lift-outs, showcasing greyhound racing in the best possible light through the mainstream media
- Hosting the annual Black Top Calcutta, one of Australia's leading racing Calcutta events.
- Full support of The Gardens Social Club, with contribute almost $20k annually into the NCA for the benefit of participants
- Conduct many charity race meetings at The Gardens, given our relationship and standing within the local community
- Be at the forefront of any marketing and publicity opportunities, both for the benefit of The Gardens, but also the broader greyhound racing industry.

With regard to the broader policy issue raised regarding loan funding from members, we would agree that it is not absolute best practice. However, as GRNSW is aware, the bulk of the "legacy creditors" were incurred outside the normal course of business as a result of the co-ownership transaction with GRNSW. There is a higher degree of comfort given confirmation that NCA Group is a viable and profitable business.

On top of the proposed positive EBITDA for FY14, we again also refer to the Monte Caro simulation which states:

"With an injection of $150k of members loan contributions, there is a 91% chance that the FY14 final cash position will be between $0 and $280K having repaid all legacy creditors."